

## College Savings Plan Comparison Chart

Presented by Gottfried & Somberg Wealth Management, LLC

### Highlights of Key Comparison Points

College Savings Highlights					
	Tax Advantages	Contribution or Income Limitations	Limited Investment Options	Limited Use of Funds	High Financial Aid Impact
Custodial Account					X
Coverdell Education Savings Account (ESA) (Parent owned)	X	X		X	
529 Plan (Parent owned)	X			X	
529 Prepaid Tuition Plan	X	X		X	
U.S. Savings Bonds (Parent owned)	X	X	X		
Investment Account (Parent owned)					
Roth IRA	X	X			Distributions (counted as income)
Life Insurance	X		X		

### Overview of Each Savings Method

Description	Advantages	Trade-offs	Financial Aid Impact
<b>Traditional Savings Methods</b>			
<b>Custodial Account</b>			
Account established at a financial institution	Assets controlled by the custodian	Child gains complete access to account at age of trust termination (generally ages 18–21, depending on state)	High impact
Managed by a parent or a designated guardian	Income earned is taxed to the child; kiddie tax rules apply if the child is younger than 19, or younger than 24 if a full-time student	Transfers are irrevocable	Treated as an asset of the child
Assets must be used for benefit of the child	Account costs are generally low; no trustee costs		

<b>Coverdell Education Savings Account (ESA)</b>			
<p>Savings vehicle that allows assets to accumulate tax deferred</p> <p>Can be established by parents, grandparents, or family friends</p> <p>Maximum contributions of \$2,000 per beneficiary, per year</p>	<p>Distributions exempt from federal taxes if used to pay qualified education expenses of the beneficiary</p> <p>Can be used to cover elementary and secondary school expenses, as well as college expenses</p> <p>Unlimited investment options</p> <p>Can be rolled over to another ESA for same beneficiary or another family member</p>	<p>Income limitations on donor: Contributions phased out for incomes between \$95,000 and \$110,000 (single filers) and between \$190,000 and \$220,000 (joint filers)</p> <p>Contributions may be made until the student reaches age 18</p> <p>Remaining funds must be distributed to beneficiary at age 30, with earnings taxed as ordinary income plus a 10 percent penalty</p>	<p>High impact if account is owned by student</p> <p>Low impact if account is owned by parent</p> <p>Treated as an asset of the account owner</p> <p>Qualified distributions are not considered the income of parents or student</p>
<b>529 Savings Plan</b>			
<p>Investment account that allows money to accumulate tax deferred for K–12 tuition expenses, registered apprenticeship programs, and college expenses, as well as to repay qualified student loans*</p> <p>Sponsored by a state and managed by various financial institutions</p>	<p>Distributions exempt from federal taxes if used to pay qualified education expenses of the beneficiary</p> <p>Can be used to cover K-12 tuition, registered apprenticeship programs, and college expenses, as well as repay qualified student loans*</p> <p>Account assets professionally managed</p> <p>Investment choices within plan can be modified for a single beneficiary twice in a calendar year without tax penalty</p> <p>Account owners can change the plan beneficiary (if the new beneficiary is a relative of the previous beneficiary)</p>	<p>No guaranteed rate of return</p> <p>Distributions not used for qualified higher education expenses are subject to federal income tax plus a 10 percent penalty; taxes and penalties apply only to earnings in the account</p>	<p>Low impact</p> <p>Treated as an asset of account owner (custodial versions of 529 plans treated as parent assets of dependent students)</p> <p>Qualified distributions are not considered income of parents or student</p> <p>Grandparent-owned (or third party owned) 529 plans are not considered an asset or income for FAFSA</p>

**529 Prepaid Tuition Plan**

<p>Savings plan designed to increase in value at the same rate as college tuition</p> <p>Can be sponsored by a state or a private college or university</p> <p>Contract plans offer prepurchase of specified number of years of tuition; unit plans offer prepurchase of a percentage of tuition costs</p>	<p>Future college tuition costs can be locked in at today's prices</p> <p>Offers a form of guaranteed return, as account value is designed to increase at pace of tuition cost inflation</p>	<p>Beneficiary must attend a participating college (typically a public college within that state) to receive maximum benefit</p> <p>Covers only undergraduate tuition costs</p> <p>Most plans require all withdrawals to be made within 10 years from when student starts college and by age 30</p> <p>Distributions not used for qualified higher education expenses are subject to federal income tax plus a 10 percent penalty; taxes and penalties apply only to earnings in account</p>	<p>Low impact</p> <p>Treated as an asset of account owner; asset value equals refund value of plan (previously treated as a resource and reduced aid dollar-for-dollar)</p> <p>Qualified distributions are not considered income of parents or student</p>
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**U.S. Savings Bonds**

<p>Savings bonds purchased electronically online from the U.S. Treasury, Series EE and Series I</p> <p>Managed and owned by parent</p>	<p>Interest earned is exempt from state and local taxes</p> <p>Interest may be exempt from federal tax if the following qualifications are met: issued in name of one or both parents, issued 1990 or later, owner is at least 24 years old, married taxpayers file joint return, owner's income is within income restrictions, and used for qualified education expenses of owner, spouse, or dependent</p> <p>Backed by the full faith and credit of the U.S. government</p>	<p>Interest rates are typically low and may not keep up with inflation</p> <p>Early redemption penalty may apply within first five years</p> <p>If eligibility or income requirements are not met, interest will be subject to federal income tax</p> <p>Income limitations: federal tax interest exemption phased out for 2024, the exclusion is reduced when modified AGI exceeds \$96,800 (\$145,200 if married filing jointly) and is eliminated when modified AGI reaches \$111,800 (\$175,200 if married filing jointly) (Rev. Proc. 2023-34), at the time the bonds are redeemed and used for qualified higher education</p>	<p>Lower impact if bonds are owned by parent</p> <p>Treated as an asset of account owner</p>
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Alternative Savings Methods			
<b>Investment Account (Parent owned)</b>			
Account established at a financial institution  Managed and owned by parent	Assets can be used for any need of the parents or the child  Unlimited investment options	Account taxable to the owner	Lower impact if account is owned by parent  Treated as an asset of account owner
<b>Roth IRA</b>			
Retirement savings account  Funds contributed grow tax free and may be withdrawn tax free if certain requirements are met  Maximum contributions of \$7,000 and additional \$1,000 for 50 years and older, per year	Assets can be used for any need of the parents or the child  Contributions can be accessed at any time tax and penalty free  Earnings can be accessed without tax or penalty after age 59½ and once five years have passed after the first Roth contribution was made  Unlimited investment options	If younger than 59½, any earnings that are withdrawn will be subject to income tax and a 10 percent penalty  An exception to the 10 percent penalty is if the funds are used to pay for higher education  Income limitations: contributions phased out for MAGI greater than \$160,999 (single filers) or \$239,999 (married filing jointly)	Low impact as retirement account balances typically are not included  Withdrawals are high impact, includible as income to the beneficiary
<b>Life Insurance</b>			
Life insurance purchased to provide a tax-free death benefit  Premiums paid into a permanent life insurance policy cover policy expenses and may create accessible cash value over time	Policy cash value grows tax deferred and potentially tax free if the policy remains in force for life  Depending on the design and policy type, the cash value may be accessed by withdrawing up to the premiums paid into the policy or by obtaining a policy loan  Assets can be used for any need of the parents or the child	Policy must be properly structured and managed to provide cash value access when needed, which may take several years  If not properly managed, the policy may lapse and create a taxable event, resulting in ordinary income tax on gains; or surrender charges may be applicable  Policy costs will vary depending on the age and health of the insured	Low impact as cash value from life insurance is typically not included in FAFSA  Schools may count cash value from life insurance in the CSS Profile or school-specific financial aid application

\* Withdrawals from 529 plans are federally tax exempt if used for registered apprenticeship programs fees, books, and required equipment; as well as college expenses, including tuition, room and board, fees, books, and equipment; can be used for qualified distributions for elementary and secondary school tuition, up to \$10,000 per year, per student. (**Please note:** Not all states recognize these updated federal K–12 provisions. Be sure to check with your state.) Repayment of qualified student loans has a lifetime limit of \$10,000 for a 529 plan beneficiary and an additional \$10,000 per sibling of the plan beneficiary.

The fees, expenses, and features of 529 plans can vary from state to state. A 529 plan involves investment risk, including the possible loss of funds. By investing in a plan outside your state of residence, you may lose any state tax benefits. All 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.

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